G-010/M-91-512 ORDER APPROVING PURCHASE, GRANTING VARIANCE, AND REQUIRING INFORMATION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of a Petition From Midwest Gas Company for Permission to Purchase Additional Firm Deferred Delivery Storage Service and to Recover the Costs Associated With this Additional Storage Service Through its Monthly Purchased Gas Adjustment

ISSUE DATE: May 4, 1992

DOCKET NO. G-010/M-91-512

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PROCEDURAL HISTORY

On July 15, 1991, Midwest Gas Company (Midwest) filed a petition requesting permission to purchase 5,367 Mcf per month of additional firm deferred delivery (FDD) storage service from Northern Natural Gas Company (Northern) and to recover the carrying charges associated with this additional gas storage through its monthly purchased gas adjustment (PGA) charge.

On February 25, 1992, the Minnesota Department of Public Service (the Department) submitted its Report of Investigation and Recommendation. The Department recommended that the Commission grant Midwest's requests.

On April 14, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

Additional Firm Deferred Delivery (Storage) Service

Northern, a gas pipeline company, offers a storage service that enables its customers, local distribution companies such as Midwest, to purchase natural gas during the non-heating months (July-October) when prices are historically lower, inject the gas into Northern's underground storage, and take delivery of the stored natural gas during the heating months (November-March).

The Commission has already approved one contract between Northern and Midwest for this service. Pursuant to the approved contract, Northern stores 3,251 Mcf of natural gas per month that Midwest has purchased in the non-heating months for later delivery.

The Commission will also approve this currently proposed storage contract. Midwest has demonstrated its need for an additional amount of this service. Moreover, such arrangements have the potential for lowering the commodity cost of gas to consumers and improving the diversity and reliability of a local delivery company's (LDC's) gas supply. In this case, these potentials are quite significant. Midwest estimated that it would save $429,120 in commodity costs and $214,692 of additional reservation fees under the contract. This would result in net savings for customers of approximately $215,000.

<u>Recovery of Transaction Costs Through the PGA</u>

Midwest has requested authority to flow the costs associated with the storage-for-later-use method through its monthly PGA. The purchase of storage services involves three distinct costs: reservation and receipt charges, commodity costs, and what Midwest terms related carrying costs.[1]

The first two types of costs (reservation and receipt charges and commodity costs) are costs specifically authorized for recovery through the PGA by Minn. Rules, part 7825.2700. No prior approval is required to authorize the recovery of those costs through the PGA.

Recovery of the third type of costs (the company's "carrying costs") is not authorized by the PGA rule. In the context of the PGA, failure to authorize recovery of a particular item is the equivalent of prohibiting recovery of that item through the PGA. A variance would be required to approve Midwest's request regarding carrying costs.

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[1] The "carrying cost" identified by Midwest in this transaction is not a finance charge that it pays to any party. It is the "cost" of the company's lost opportunity. The amount of such cost is equal to the income that the company would have achieved if, instead of purchasing a certain amount of natural gas <u>early</u> (i.e. in the non-heating months) and storing it until it was sold to end-customers, it had invested that early purchase and storage money at the prime interest rate until, in the normal course of business, it would have purchased that gas.

Allowing Midwest to recover this lost opportunity amount holds it income neutral. Disallowance of that amount would penalize the company for a buying method that benefits consumers and would inhibit the company from employing that method.

A variance may be granted if enforcement of a rule would impose an excessive burden on any party, granting the variance would not adversely affect the public interest, and granting the variance would not conflict with the standards imposed by law. Minn. Rules, part 7830.4400. The Commission finds that the standards for granting a limited variance have been met. As explained below, the Commission will vary the rule's prohibition against recovering through the PGA the carrying costs cited by Midwest but only until the company files its next rate case and interim rates go into effect.

The emergence of storage options has been recent and the extent Midwest will use this option is highly unpredictable. The rapid expansion of storage opportunities over the last several years was unforseen, making it impossible to predict and therefore place in Midwest's rate base the costs of the company's long-term, optimal level of gas storage in the company's most recent rate case. At the same time, it is clear that the purchase for storage method holds much potential benefit for consumers. The inability of the company to recover its carrying costs associated with storage through the PGA might inhibit the company from utilizing this beneficial purchasing method. In light of these considerations, the PGA rule's limitation on recovery to the commodity and demand portion of gas costs imposes an unreasonable burden on the company.

Granting a limited variance until the next rate case will promote a practice beneficial to consumers and harm no one. To assist the Commission in monitoring this practice throughout the duration of this variance, the company will be required to provide additional information on its use of gas storage and carrying charge calculations in its monthly PGA filings. Further, by extending the variance only until the company's next rate case, the Commission assures that future costs in that area will be timely evaluated in the more traditional fashion, in the company's rate case. Such a variance promotes the public interest and conflicts with no standards imposed by law. The Commission's decision to grant this limited variance is based on the specific facts of this case.

ORDER

1. Midwest Gas' (Midwest's) request to purchase 5,367 Mcf per month of additional Firm Deferred Delivery Storage Service from Northern Natural Gas Company (Northern) is approved.

2. Minn. Rules, part 7825.2700 is varied until Midwest's next rate case and interim rates go into effect to allow Midwest to recover in its monthly Purchased Gas Adjustment (PGA) the carrying costs associated with its purchase of 5,367 Mcf per month of additional Firm Deferred Delivery Storage Service from Northern.

3. As a condition of its receipt of the variance described in Ordering Paragraph 2, Midwest shall provide the following additional information with its monthly PGA report:

   a. a log of gas injections into storage, including the date, cost, and amount in Mcfs;

   b. the date Midwest pays the supplier for each purchase of gas;

   c. a calculation of the carrying charges at the prime rate.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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